

AR45

*CanCorp*

*Fin*

VENPOWER LIMITED

**Annual Report 1976**



# VENPOWER LIMITED

## REPORT OF THE PRESIDENT

On behalf of the Board of Directors, I am pleased to present the annual report of the Company for the year ended June 30, 1976.

1976 was a year of progress for your Company and represents a full year of activity in real estate.

Before reviewing your Company's activities in more detail, may I remind our shareholders that the principal business of the Company is investment. This means that the main growth of your Company can be expected to occur through appreciation of investment assets and increasing revenue from them. From time to time, some of these assets, if circumstances warrant, may be disposed of and replaced by other assets, and in keeping with these objectives, your Board has concentrated upon optimising the value of the present holdings and the return which the Company receives from them. We are always on the look-out for the acquisition of other property suitable for investment and development.

During the year your Company acquired two revenue producing apartment buildings totalling 264 apartment suites. We now have a total of six apartment buildings, totalling 775 suites, and as you can see from our statement of operations, the Company's net income is approximately the same as the previous year, namely \$91,419 in 1976, and \$94,783 in 1975, for per share earnings of 3.06¢ in 1976 and 3.17¢ in 1975.

Cash flow, which is the sum of net income, depreciation and deferred income taxes, amounted to \$310,281 or 10.39¢ per common share in 1976 as compared to \$114,433 or 3.83¢ per common share in 1975, almost a three-fold increase. The cash flow figure indicates the funds available to meet Company obligations, including mortgage principal repayments and the amount of revenue generated for growth. For a real estate company, cash flow is considered as important a measure of financial performance as net income.

In keeping with our aim of providing the fullest financial disclosure to our shareholders, your Directors engaged the Firm of James J. George and Associates to conduct an appraisal of your Company's revenue producing apartment buildings, so as to estimate the market value of the various properties. The property rights under appraisal are those of the fee simple interest, as if the property were free and clear of all encumbrances. The market value is defined as, "the highest price, estimated in terms of money, which the property will bring if exposed for sale on the open market, allowing a reasonable period of time in which to find a purchaser, who buys with a full knowledge of all the uses to which it is adapted and for which it is capable of being used".

I am pleased to report that the total estimated value of the revenue producing apartment buildings in the appraisal report amounts to \$13,896,600 as compared to the book value of \$11,567,497.

The appraisal increase of \$2,329,103 in the value of the revenue producing properties if and when realized amounts to 78.01¢ per common share.

As at June 30, 1976, the book value per common share is \$1.32.

All of the foregoing factors must be taken into consideration when one is assessing the fair market value or net worth of the Company's shares.

We believe we have laid proper foundations for the future growth of your Company.

On behalf of the Board of Directors

Morton Gelber  
President and Chairman of the Board



# VENPOWER LIMITED

## BALANCE SHEET

### ASSETS

		June 30,
	1976	1975
<b>CURRENT ASSETS</b>		
Cash - - - - -	\$ 7,551	\$ 84,008
Rents receivable - - - - -	23,783	-0-
Due from Phi International Inc. — Note I - - - - -	26,247	-0-
Prepaid realty taxes and deposits - - - - -	71,818	87,736
<b>TOTAL CURRENT ASSETS</b>	<b>129,399</b>	<b>171,744</b>
<b>INCOME-PRODUCING PROPERTIES — Notes A and K</b>		
Land - - - - -	2,144,359	1,556,000
Buildings - - - - -	9,331,724	5,163,745
Equipment - - - - -	210,926	172,192
	11,687,009	6,891,937
Less allowances for depreciation - - - - -	119,512	3,650
	11,567,497	6,888,287
	<u>\$11,696,896</u>	<u>\$7,060,031</u>

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### CURRENT LIABILITIES

Current portion of bank loan — Note G - - - - -	\$ 300,000	\$ -0-
Accounts payable and accrued - - - - -	148,393	52,827
Income taxes payable - - - - -	29,035	56,000
Current portion of mortgages payable - - - - -	196,000	129,844
Deferred taxes — Note D - - - - -	35,000	47,000
Unearned rental income - - - - -	69,129	24,765
<b>TOTAL CURRENT LIABILITIES</b>	<b>777,557</b>	<b>310,436</b>

DEFERRED TAXES — Note D - - - - - 119,000 16,000

MORTGAGES PAYABLE — Note B - - - - - 6,367,196 2,876,871

BANK LOAN — Note G - - - - - 485,000 -0-

#### SHAREHOLDERS' EQUITY

##### Capital stock:

Authorized 10,000,000 shares without par value - - - - -

Issued and fully paid 2,985,511 shares - - - - - 2,968,070 2,968,070

Contributed surplus - - - - - 47,914 47,914

Retained earnings - - - - - 932,159 840,740

3,948,143 3,856,724

\$11,696,896 \$7,060,031

APPROVED ON BEHALF OF THE BOARD:

Director \_\_\_\_\_ Director \_\_\_\_\_

See notes to financial statements.

# VENPOWER LIMITED

## STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended June 30,	
	<u>1976</u>	<u>1975</u>
SOURCE OF FUNDS		
From operations:		
Net earnings for the year - - - - -	\$ 91,419	\$ 94,783
Provisions for depreciation - - - - -	115,862	3,650
Deferred taxes - - - - -	103,000	16,000
	310,281	114,433
Mortgages payable (less current portion) - - - - -	3,490,325	2,876,871
Bank loan (less current portion) - - - - -	485,000	-0-
	4,285,606	2,991,304
APPLICATION OF FUNDS		
Additions to income-producing properties - - - - -	4,795,072	6,891,937
INCREASE (DECREASE) IN WORKING CAPITAL -	(509,466)	(3,900,633)
WORKING CAPITAL AT BEGINNING OF YEAR - - - - -	(138,692)	3,761,941
WORKING CAPITAL AT END OF YEAR	<u>(\$ 648,158)</u>	<u>(\$ 138,692)</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash - - - - -	(\$ 76,457)	\$ 65,081
Short-term deposits - - - - -	-0-	(3,029,472)
Marketable securities - - - - -	-0-	(693,750)
Accrued interest and sundry accounts receivable - - - - -	-0-	(36,067)
Prepaid expenses - - - - -	-0-	(6,725)
Prepaid realty taxes and deposits - - - - -	(15,918)	87,736
Due from Phi International Inc. - - - - -	26,247	-0-
Rents receivable - - - - -	23,783	-0-
	(42,345)	(3,613,197)
(Increase) decrease in current liabilities:		
Bank loan - - - - -	(300,000)	-0-
Accounts payable and accrued - - - - -	(95,566)	(29,827)
Income taxes payable - - - - -	26,965	(56,000)
Current portion of mortgages payable - - - - -	(66,156)	(129,844)
Deferred taxes - - - - -	12,000	(47,000)
Unearned rental income - - - - -	(44,364)	(24,765)
	(467,121)	(287,436)
INCREASE (DECREASE) IN WORKING CAPITAL	<u>(\$ 509,466)</u>	<u>(\$3,970,835)</u>

See notes to financial statements.



# VENPOWER LIMITED

## STATEMENT OF EARNINGS

	Year ended June 30,	
	1976	1975
REVENUE		
Rental income - - - - -	\$1,847,707	\$ 57,461
Foreign exchange gain - - - - -	-0-	10,869
Interest - - - - -	-0-	326,053
	<u>✓ 1,847,707</u>	<u>✓ 394,383</u>
OPERATING EXPENSES		
Mortgage interest - - - - -	494,251	10,620
Realty taxes - - - - -	344,346	11,628
Utilities - - - - -	225,636	1,682
Repairs and maintenance - - - - -	141,739	-0-
Wages and benefits - - - - -	113,433	750
Management fees - - - - -	91,693	-0-
Depreciation - - - - -	115,862	3,650
	<u>1,526,960</u>	<u>28,330</u>
HEAD OFFICE EXPENSES		
Bank loan interest- - - - -	62,679	724
Operating and administrative - - - - -	23,101	27,917
Professional fees - - - - -	29,356	20,239
Salaries and benefits - - - - -	36,192	9,140
	<u>1,678,288</u>	<u>86,350</u>
	EARNINGS BEFORE INCOME TAXES	
	AND EXTRAORDINARY ITEMS 169,419	308,033
INCOME TAXES		
Current - - - - -	(25,000)	100,000
Deferred - - - - -	103,000	63,000
	<u>78,000</u>	<u>163,000</u>
	EARNINGS BEFORE EXTRAORDINARY ITEMS- ✓ 91,419	✓ 145,033
EXTRAORDINARY ITEMS - Note J - - - - -	-0-	✗ 50,250
	NET EARNINGS FOR THE YEAR - \$ 91,419	✗ \$ 94,783
BASIC EARNINGS PER COMMON SHARE		
Before extraordinary items- - - - -	✓ 3.06¢	✓ 4.86¢
Net earnings for the year - - - - -	✗ 3.06¢	✗ 3.17¢

*loss on sale of sec*

## STATEMENT OF RETAINED EARNINGS

RETAINED EARNINGS AT BEGINNING OF YEAR - - - - -	\$ 840,740	\$745,957
NET EARNINGS FOR THE YEAR - - - - -	<u>91,419</u>	<u>94,783</u>
RETAINED EARNINGS AT END OF YEAR - \$	<u>932,159</u>	<u>\$840,740</u>

See notes to financial statements.

# VENPOWER LIMITED

## NOTES TO FINANCIAL STATEMENTS

June 30, 1976

### NOTE A – ACCOUNTING POLICIES

The Company's accounting policies and its standards of disclosure are in accordance with the guidelines set out in the research study of the Canadian Institute of Chartered Accountants "Accounting for Real Estate Development Operations".

Depreciation is recorded on income-producing properties using the sinking fund method, whereby depreciation on the building cost is based on an estimated life of 35 years, initially at the rate of 1.1% per year, increasing at a rate of 5% compounded annually.

Depreciation on equipment is recorded using the straight-line method based on an estimated life of 10 years. Equipment replacements and renewals are expensed.

Unearned rental income represents the last month rent paid in advance by all tenants. The Company accrues 6% interest payable on unearned rental income.

### NOTE B – MORTGAGES PAYABLE

	<u>1976</u>	<u>1975</u>
North American Life Assurance Co. first mortgage loan on land and buildings, payable in monthly instalments of \$10,506 (principal and interest – 7%) through July 1, 1978	\$1,032,596	\$1,084,405
Montreal Trust Company first mortgage loan on land and buildings payable in monthly instalments of \$17,511 (principal and interest – 7%) through December 1, 1984	1,844,273	1,922,310
Canada Trust Co. first mortgage on land and buildings payable in monthly instalments of \$9,542 (principal and interest – 8%) through January 1, 1993	1,083,921	-0-
Toronto Dominion Bank first mortgage loan on land and buildings payable in monthly instalments of \$10,593 (principal and interest – 7.25%) through December 1, 1998	1,416,171	-0-
Lehndorff Management Limited second mortgage on land and buildings. No principal payment until maturity at July 31, 1980, interest at 9%	1,186,235	-0-
	6,563,196	3,006,715
	196,000	129,844
Less current portion of mortgages payable	<u>\$6,367,196</u>	<u>\$2,876,871</u>



# VENPOWER LIMITED

## NOTES TO FINANCIAL STATEMENTS — continued

### NOTE C — INFORMATION REQUIRED UNDER THE CANADA CORPORATIONS ACT

	<u>1976</u>	<u>1975</u>
Number of directors	5	5
Number of officers	2	2
Number of officers who are also directors	2	2
Remuneration of officers as officers	\$34,741	\$9,000
Remuneration of directors as directors	-0-	-0-

### NOTE D — DEFERRED TAXES

Current timing differences are the result of recording prepaid property taxes for book purposes and expensing them for tax purposes. Long term timing differences arise because the Company is claiming capital cost allowances for tax purposes in excess of recorded depreciation.

### NOTE E — CAPITAL LOSSES

The Company has capital losses of approximately \$47,000 available to offset income taxes on future capital gains. These capital losses can be carried forward indefinitely.

### NOTE F — RENT REVIEW

The Company is subject to rent review legislation and presently has a number of rental units undergoing either the initial rent review hearings or awaiting appeals on decisions already made by rent review officers. It is the opinion of management that rents proposed by them will not be materially altered by either Rent Review Board decisions or by appeals. According to present Anti-Inflation Board regulations, since the total income of the Company is from rental properties, it is not subject to Anti-Inflation regulations.

### NOTE G — BANK LOAN

The bank loan is a demand term credit loan of \$785,000 at 12-1/4% per annum repayable in monthly instalments of \$25,000. The current portion represents the instalments due in the next fiscal period.

The bank loan is secured by a second mortgage in the amount of \$1,000,000 on certain of the income-producing properties.

### NOTE H — COMPARATIVE FIGURES

The Company acquired its first income-producing properties on June 16, 1975 and therefore the comparative figures contain only 14 days operations.

Certain 1975 figures have been restated to conform with 1976 presentation.

### NOTE I — RECEIVABLE FROM PHI INTERNATIONAL INC.

The Company has contracted with Phi Property Management, a division of Phi International Inc. to manage all income producing properties for a fee of 5% of gross rental revenue. Under the terms of this contract Phi Property Management collects all rental revenue and pays all expenses remitting the difference monthly to Venpower Limited. This balance represents the final balance payable to the Company at June 30, 1976.



# VENPOWER LIMITED

## NOTES TO FINANCIAL STATEMENTS — continued

### NOTE J — EXTRAORDINARY ITEM

	<u>1975</u>
Reduction in income taxes resulting from carry-forward of prior years' losses	\$44,000
Loss on sales of securities	<u>(94,250)</u>
TOTAL	<u>(\$50,250)</u>

### NOTE K — ACQUISITIONS

On July 31, 1975, the Company purchased two income-producing properties from Third Lehdorff (Canada) Limited for a purchase price of approximately \$4,750,000. The purchase was financed as follows:

Cash	\$ 50,000
First mortgages:	
7-3/4% due 1998	1,439,000
8% due 1993	1,116,000
Second mortgage:	
9% until July 31, 1977 and then the greater of 10% or 2% above prime, thereafter, due 1980	1,386,000
Bank advance under mortgage arrangement — Note A	
2% over prime, due on demand	759,000

At June 30, 1976 the Company holds six income-producing properties totaling 775 suites.

*To the Shareholders,*  
VENPOWER LIMITED

We have examined the balance sheet of Venpower Limited as at June 30, 1976 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company at June 30, 1976 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceeding year.

August 18, 1976.

ERNST & ERNST,  
*Chartered Accountants*

# VENPOWER LIMITED

SUITE 501, 2200 YONGE STREET, TORONTO, CANADA

*Directors*      Morton Gelber

Harold Sand

Carl Muransky

Bernard Kamin

Miles Halberstadt

*Officers*      Morton Gelber ..... *President & Chairman of the Board*

Harold Sand ..... *Secretary-Treasurer*

*Transfer Agent & Registrar* CANADA PERMANENT TRUST COMPANY  
20 Eglinton Ave. West, Toronto

*Solicitors*      Weir & Foulds ..... 330 University Ave., Toronto

*Auditors*      Ernst & Ernst ..... Commerce Court West, Toronto

*Listing*      Toronto Stock Exchange ..... 234 Bay St., Toronto





